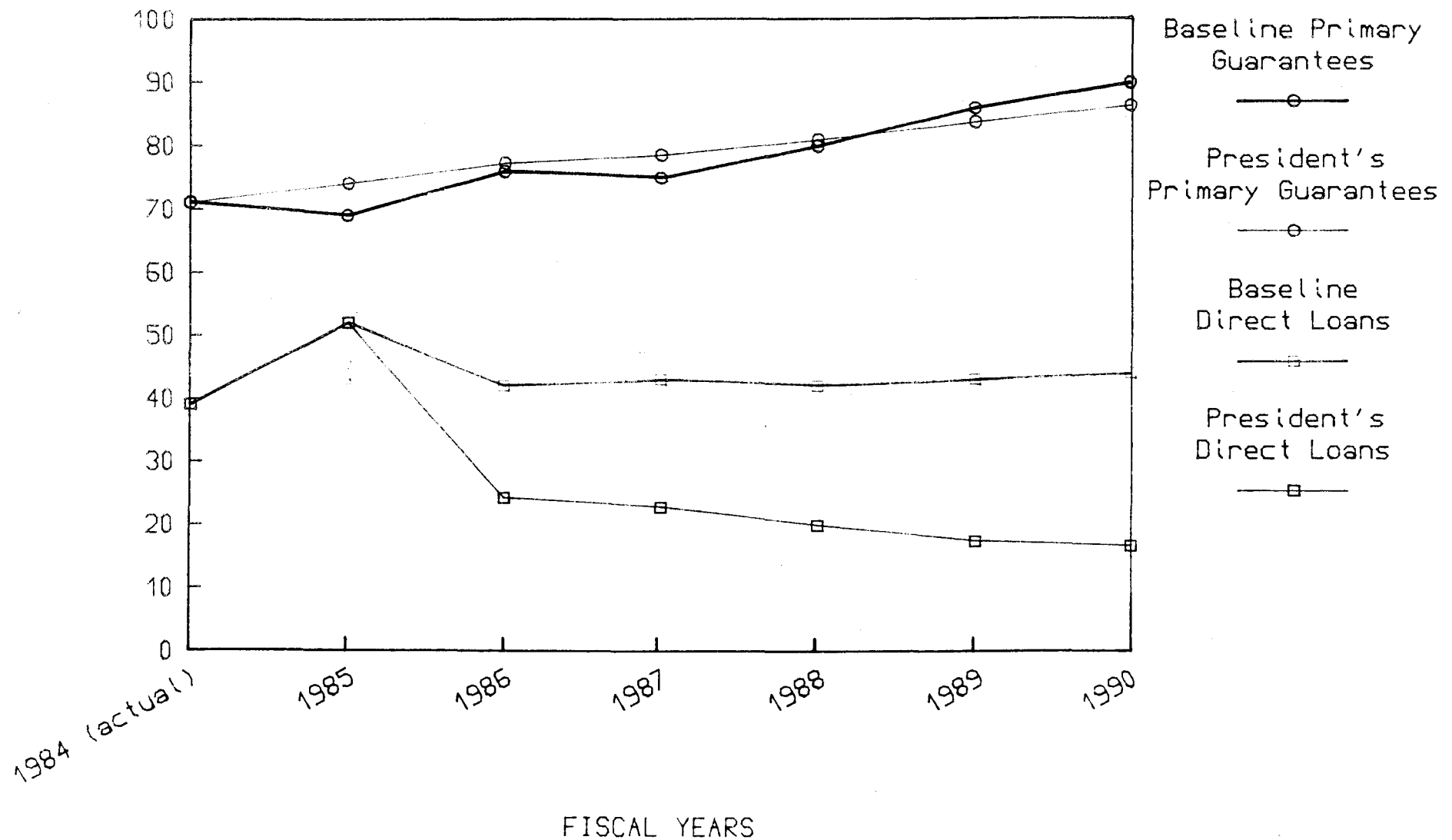


FIGURE 3.

FEDERAL CREDIT ACTIVITY PRESIDENT'S vs. CBO BASELINE Fiscal Years 1984-1990

BILLIONS OF DOLLARS



jected for agriculture, export financing, and housing. Reductions in guarantee activity are requested for business and student loans.

Credit Budget Activity Levels

Assuming the continuation of current policy, CBO projects that direct loan obligations by the federal government would reach \$43.7 billion while federal primary guarantee commitments would climb to \$89.7 billion in 1990 (see Table 5). These projections and the President's credit proposals are stated in terms of loan obligations and guarantee commitments rather than in some other measure--disbursements, for example--to focus on the point at which government makes an irrevocable offer to provide assistance and to bear the associated subsidy costs. Obligations and commitments are the last points of control for credit activity and costs. Table 5 also shows the Administration's request for loans and guarantees. The Administration's proposed reduction from current policy in direct loans is \$15.8 billion in the first year, reaching \$25.9 billion in the fifth year, a cumulative reduction of more than 50 percent over the five-year period. Primary guarantees would be higher than in the baseline projection by approximately \$2 billion per year through 1990. Total assisted credit is reduced by more than \$99 billion over the five years.

Outlay Savings and Deficit Reductions

Changes in obligations and commitments do not translate immediately into dollar-for-dollar changes in cash outlays. Direct loan obligations may be paid out over several years in accord with the cash needs of the borrower who, for example, may be constructing an electric power plant. As loans mature into the repayment stage, they yield a positive cash inflow that reduces outflow financing requirements. Similarly, years may pass before a commitment to guarantee loans leads to claims for payment (default); only a fraction of guaranteed loans end in default and foreclosure. Changes in direct loans and guarantees, therefore, are unlikely to produce equal changes in cash disbursements and the deficit. A comparison of Tables 5 and 6 confirms year-to-year differences between changes in the volume of assisted credit and outlays. In 1986, for example, total assisted lending is projected to decline by \$13.4 billion under the President's proposal, whereas cash outlays fall by \$9.7 billion (see Table 6).

TABLE 5. CBO ESTIMATE OF ADMINISTRATION'S CREDIT
BUDGET PROPOSALS (By fiscal year, in billions of dollars)

Major Program	1986	1987	1988	1989	1990	Cumulative Five-Year Changes
CBO Baseline						
Direct loan obligations	41.6	42.6	42.5	42.9	43.7	213.3
Primary guarantee commitments	<u>75.7</u>	<u>75.2</u>	<u>79.9</u>	<u>85.7</u>	<u>89.7</u>	<u>406.2</u>
Total, new lending	117.3	117.9	122.3	128.6	133.4	619.5
Secondary guarantees	43.1	45.0	46.9	48.8	50.9	234.7
Proposed Changes						
Direct loan obligations	-15.8	-20.5	-22.8	-24.5	-25.9	-109.5
Primary guarantee commitments	<u>2.4</u>	<u>1.7</u>	<u>1.8</u>	<u>2.0</u>	<u>2.5</u>	<u>10.3</u>
Total, new lending	-13.4	-18.8	-21.0	-22.5	-23.5	-99.2
Secondary guarantees	0.0	0.0	0.0	0.0	0.0	0.0
President's Budget as Estimated by CBO						
Direct loan obligations	25.8	22.2	19.7	18.3	17.8	103.8
Primary guarantee commitments	<u>78.1</u>	<u>76.9</u>	<u>81.7</u>	<u>87.7</u>	<u>92.2</u>	<u>416.6</u>
Total new lending	103.9	99.1	101.3	106.1	109.9	520.3
Secondary guarantees	43.1	45.0	46.9	48.8	50.9	234.7

SOURCE: Congressional Budget Office.

Subsidy Cost Savings

Neither obligations and commitments nor outlays for a particular year measure the value of resources consumed by federal credit assistance. Nor do changes in obligations, commitments, and outlays measure changes in subsidy costs. In 1984, for instance, total federal direct loan obligations and guarantee commitments amounted to \$39.1 billion and \$70.8 billion, respectively. Cash disbursements less repayments of principal and interest, however, totaled only \$6.3 billion. Neither the total of \$109 billion in assisted credit nor the contemporaneous cash outlay indicates the amount that the government will eventually lose, over and beyond recoveries, in administrative expenses, defaults, and negative interest spreads.

To obtain a useful measure of these subsidy costs, the value of assets exchanged in credit transactions must be compared. In a loan transaction, the government gives up cash and receives a promissory note for the same amount. In every case, the note signed by the borrower would be worth less in private markets than the cash disbursed. The government gives up cash now for a promise of repayment of principal and some interest in the future. But the value of the promissory note is reduced by the government's

TABLE 6. IMPACT ON THE UNIFIED BUDGET OF THE
PRESIDENT'S PROPOSED CHANGES IN THE CREDIT
BUDGET, 1986-1990 (By fiscal year, in billions of dollars)

	1986	1987	1988	1989	1990	Cumulative Five-Year Changes
Outlay Impact of Changes	-9.7	-13.7	-17.8	-19.4	-19.2	-79.8

SOURCE: Congressional Budget Office.

cost (in excess of fees) of processing the loan and monitoring collections, by the certainty of some defaults and late payments, and by the lower interest on some government loans than on government borrowings. The value of the loan note is less than the value of the principal by virtue of present and future subsidy costs, expressed in terms of their present value. If the government lends \$100 under such terms that the loan note received is worth \$90, the subsidy cost of the loan is \$10. For loan guarantees, subsidy cost is the difference between the present value of future costs to be incurred by government under the guarantee agreement and the present value of fees to be received by government.

A reasonable measure of subsidy cost is the difference between the amount paid by a borrower without government assistance--to a private lender--and the amount paid with assistance, adjusted for differences in the time of payments. This difference is revealing because the private lender must recover all expected costs--defaults, administrative expenses, interest--from the borrower. The difference between payments to the private lender and to the government reflects expected, unrecovered costs or subsidy costs. Subsidy costs for both direct loans and guarantees are conveniently expressed as a percentage of principal. For 1984, the Office of Management and Budget (OMB) estimates that the average subsidy value for federal direct loans was approximately 21 percent of principal and for guarantees approximately 10 percent of principal. OMB estimated that subsidy costs of federal credit in 1984 amounted to \$8.3 billion for direct loans and \$7.4 billion for guarantees.

These subsidy costs are estimates rather than observed market values and are therefore subject to substantial error. One proposal for obtaining market valuations of subsidy cost is the Credit Accounting Reform Act of 1985 introduced by Congressman Gradison and Senator Tribble. Under this plan, the government would sell its direct loans to private investors at competitive auction and reinsure its guarantee liabilities with private insurance specialists.

Until such market value subsidies are available, estimates must be used. For the purposes of this analysis, CBO has in general applied the OMB subsidy estimates for 1984 to the proposed credit reductions to obtain projected subsidy cost savings. The OMB subsidy estimates have been adjusted, as noted, to account for changes in the portfolio mix. These estimates are shown in Table 7. Adoption of the President's request would save an average of over \$9.7 billion in resources per year. This amount is 61 percent of the projected reductions in cash outlays. It indicates the value of resources that would be freed for other uses by adoption of the proposed program changes.

TABLE 7. MAJOR CHANGES IN SUBSIDIES ESTIMATED
FOR FEDERAL CREDIT PROGRAMS
(By fiscal year, in billions of dollars)

	1986	1987	1988	1989	1990	Cumulative Five-Year Changes
Proposed Changes						
Direct loans	-4.8	-5.3	-5.6	-6.0	-6.5	-28.2
Guaranteed loans	<u>-2.9</u>	<u>-4.0</u>	<u>-4.3</u>	<u>-4.6</u>	<u>-4.8</u>	<u>-20.6</u>
Total	-7.7	-9.3	-9.9	-10.7	-11.3	-48.9

SOURCE: Subsidy estimates are calculated using OMB's estimated subsidies from Special Analysis Tables F-11, F-12, and F-13 in the Budget, CBO's credit budget baseline, and CBO's reestimate of the President's credit budget proposals.

CBO REESTIMATES OF THE ADMINISTRATION'S CREDIT BUDGET PROPOSALS

As part of its analysis of the President's credit budget, CBO has reestimated the Administration's budget program to reflect CBO baseline economic assumptions and technical estimating methods. The effect of these reestimates on credit program levels is shown in Table 8. The net effect of reestimates is to increase the President's credit budget for both direct loan obligations and guaranteed loan commitments.

The net adjustment to direct loans is an increase of \$3 billion from 1986 through 1990. Only one program--the direct loans of the VA Loan Guaranty Revolving Fund has consistently large reestimates. CBO assumes that the increase in guarantee fees from 1 to 5 percent, will result in substantially higher property acquisition for defaulted guaranteed loans and in substantially higher vendee loans than assumed by the Administration. CBO estimates for Commodity Credit Corporation commodity price-support loans differ from Administration estimates--both higher and lower over the

TABLE 8. CBO REESTIMATES OF ADMINISTRATION CREDIT BUDGET REQUESTS (By fiscal year, in billions of dollars)

Major Program	1985	1986	1987	1988	1989	1990
Direct Loans						
Original Administration Request	51.9	24.2	22.7	19.9	17.3	16.8
Agriculture Credit Insurance Fund	0.7	0.0	0.0	-0.1	-0.3	0.0
Commodity Credit Corporation	0.1	1.2	-1.1	-0.8	0.6	0.6
VA Loan Guaranty Revolving Fund	0.3	0.5	0.5	0.6	0.8	1.1
Other	<u>0.2</u>	<u>-0.1</u>	<u>0.0</u>	<u>0.1</u>	<u>-0.1</u>	<u>-0.5</u>
Direct Loan Change	<u>1.3</u>	<u>1.6</u>	<u>-0.6</u>	<u>-0.2</u>	<u>1.0</u>	<u>1.2</u>
Administration Request as Reestimated by CBO	53.2	25.8	22.2	19.7	18.3	17.8
Guaranteed Loans						
Original Administration Request	74.0	77.2	78.5	80.9	83.7	86.3
Synthetic Fuels Corporation	-0.1	3.6	-0.5	-0.4	-0.2	0.0
Commodity Credit Corporation	0.0	-1.5	-1.5	-1.5	-1.5	-1.5
Guaranteed Student Loans	0.8	0.1	-1.0	-1.5	-2.1	-2.4
VA Loan Guaranty Revolving Fund	1.6	-1.2	1.2	4.1	7.8	9.7
Other	<u>0.0</u>	<u>0.0</u>	<u>0.1</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Guaranteed Loan Change	<u>2.3</u>	<u>0.9</u>	<u>-1.6</u>	<u>0.8</u>	<u>4.0</u>	<u>5.9</u>
Administration Request as Reestimated by CBO	76.4	78.1	76.9	81.7	87.7	92.2

five-year projection period--because of different yield and price assumptions. CBO has assumed higher disaster loan payments in 1985 for the Agricultural Credit Insurance Fund. The Administration has proposed to eliminate emergency disaster loans where federal crop insurance is not available. CBO assumes that this would effectively eliminate the program. The residual loans in the Administration's projections for 1988 and 1989 have been revised accordingly.

CBO has increased the Administration's estimates for guaranteed loans for 1986 through 1990 by a net adjustment of \$10 billion. VA loan guarantee estimates have been increased by \$21.6 billion over the five-year period to reflect both the increasing demand from Vietnam veterans for home mortgages and the relatively low interest rate assumptions. CBO also has a higher estimate of Synthetic Fuels Corporation guarantees. The Administration's budget showed guaranteed loans made (that is, disbursed) rather than commitments. Offset against these higher estimates, CBO estimates that the adoption of a 5 percent placement fee on CCC export credit guarantees will reduce demand for and consequently the volume of these loans. CBO also assumes a greater reduction in Guaranteed Student Loan volume stemming from the President's proposed restrictions on program eligibility.

MAJOR PROGRAM CHANGES PROPOSED BY THE ADMINISTRATION

The aggregate savings projected from adoption of the President's request result from a mix of cutbacks and increases spread across a number of programs. This section describes these changes for programs in which the projected effects are especially large.

Tables 9, 10, and 11 show the effects of the Administration's credit proposals on loan and guarantee activity, outlays, and subsidies, respectively. The assumptions used by CBO in compiling these tables are summarized below:

- o Table 9. Major Changes in the Baseline Credit Program Levels Proposed in the Administration's Budget. The CBO baseline estimate maintains 1985 credit program levels through 1990. Discretionary programs--those limited by annual appropriation action--have been increased to adjust for inflation. Open-ended credit programs, such as Guaranteed Student Loans and VA mortgage assistance, are projected on the basis of policies in place in 1985 and CBO economic and technical assumptions.

TABLE 9. MAJOR CHANGES IN THE BASELINE CREDIT PROGRAM LEVELS
 PROPOSED IN THE ADMINISTRATION'S BUDGET
 (By fiscal year, in billions of dollars)

Major Program	1985	1986	1987	1988	1989	1990	Cumulative Five-Year Changes
<u>Direct Loan Obligations</u>							
CBO Baseline	51.9	41.6	42.6	42.5	42.9	43.7	213.3
Administration Proposals							
Foreign Military Sales Credit	---	0.5	0.4	0.3	0.2	0.0	1.4
Export-Import Bank	1.1	-4.0	-4.3	-4.4	-4.6	-4.8	-22.1
Rural Electrification and Telephone Revolving Fund	0.0	-1.6	-1.9	-2.2	-2.5	-2.8	-11.0
Agriculture Credit Insurance Fund	0.0	-4.3	-4.6	-4.6	-4.9	-5.2	-23.6
Commodity Credit Corporation	0.0	0.0	-1.8	-3.6	-4.1	-4.2	-13.7
Rural Housing Insurance Fund	0.0	-3.4	-3.5	-3.7	-3.8	-4.0	-18.4
Small Business Administration	0.0	-1.3	-2.1	-2.3	-2.6	-2.8	-11.0
Community development grant guarantee	0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.7
Rural Development Insurance Fund	0.0	-0.4	-0.5	-0.5	-0.5	-0.6	-2.5
Low-rent public housing	0.0	0.0	-0.9	-1.1	-1.1	-1.2	-4.3
Other	<u>0.0</u>	<u>-1.1</u>	<u>-1.2</u>	<u>-0.6</u>	<u>-0.4</u>	<u>-0.3</u>	<u>-3.6</u>
Direct Loan Change	<u>1.3</u>	<u>-15.8</u>	<u>-20.5</u>	<u>-22.8</u>	<u>-24.3</u>	<u>-25.9</u>	<u>-109.5</u>
Administration Request	53.2	25.8	22.2	19.7	18.3	17.8	103.8

(Continued)

Table 9. (Continued)

Major Program	1985	1986	1987	1988	1989	1990	Cumulative Five-Year Changes
<u>Guaranteed Loan Commitments</u>							
CBO Baseline	68.8	75.7	75.2	79.9	85.7	89.7	406.2
President's Proposals							
AID housing guarantees	---	-0.1	-0.2	-0.2	-0.2	-0.2	-0.9
Export-Import Bank	---	1.6	1.1	0.6	0.2	-0.3	3.1
Agriculture Credit Insurance Fund	0.0	2.3	2.2	2.2	2.2	2.1	11.0
Commodity Credit Corporation	0.0	-1.5	-1.5	-1.5	-1.5	-1.5	-7.5
Federal Housing Administration	7.0	7.9	8.4	8.5	8.6	8.6	42.0
Small Business Administration	0.5	-2.4	-2.5	-2.6	-2.7	-2.8	-13.1
Rural Development Insurance Fund	---	-0.2	-0.2	-0.2	-0.2	-0.2	-0.9
Guaranteed Student Loans	0.0	-1.5	-3.3	-3.4	-3.6	-3.7	-15.4
VA Loan Guaranty Revolving Fund	0.0	-3.5	-2.1	-1.4	-0.4	0.9	-6.5
Other	<u>0.0</u>	<u>-0.2</u>	<u>-0.3</u>	<u>-0.3</u>	<u>-0.3</u>	<u>-0.4</u>	<u>-1.5</u>
Guaranteed Loan Change	<u>7.6</u>	<u>2.4</u>	<u>1.7</u>	<u>1.8</u>	<u>2.0</u>	<u>2.5</u>	<u>10.3</u>
Administration Request	76.4	78.1	76.9	81.7	87.7	92.2	416.6

SOURCE: Congressional Budget Office.

- o Table 10. Major Changes in Baseline Outlays for Credit Programs Resulting from the Administration's Budget. CBO outlay estimates for the President's proposals include all identifiable credit program outlays: loan disbursements, interest subsidies, administrative costs, repayments and prepayments, and loan guarantee defaults and fees.
- o Table 11. Major Changes in Subsidies for Credit Programs Resulting from the Administration's Budget. Subsidy estimates are based on OMB subsidy ratios shown in Special Analysis F of the Budget--Tables 11, 12, and 13. The OMB subsidy estimates are calculated from a comparison of the terms on government loans with the terms on hypothetical private loans to the same borrower or class of borrowers. The baseline subsidy estimates apply the OMB subsidy ratios assuming continuation of the 1985 mix of loan programs and average depth of subsidy. Subsidy estimates for the President's proposals for 1986 through 1990 show reductions in the subsidies provided by many programs as a result of proposed changes in loan terms.

CLOSING COMMENT

When the Congress considers the possible savings from adopting the President's budget proposals for federal credit, these savings--all in relation to baseline projections--should be viewed in terms of reductions in assisted credit, outlay savings, and resources freed for other uses. Each of the proposed changes would affect the volume of credit, outlays, and subsidies and, in fact, most would reduce these three measures. The concept of savings that is relevant will depend on the motivation for Congressional action. Where the objective is to reduce the credit market presence of federally assisted borrowers, the credit budget measure of activity will provide the appropriate gauge for savings. Where the current budget deficit is the object of concern, the outlay savings indicate the potential gain. Where the goal is to reduce the consumption of economic resources by federal credit programs, subsidy cost savings should be the guide. It should be noted that where federal credit is being traded off against spending, the appropriate cost saving from credit cutbacks is subsidy cost rather than outlay savings, which tend to overstate most credit program reductions.

TABLE 11. MAJOR CHANGES IN SUBSIDIES ESTIMATED FOR CREDIT PROGRAMS RESULTING FROM THE ADMINISTRATION'S BUDGET
(By fiscal year, in billions of dollars)

Major Program	1986	1987	1988	1989	1990	Cumulative Five-Year Changes
Direct Loans						
Administration Proposals						
Foreign Military Sales Credit	0.3	0.3	0.2	0.1	0.0	0.9
Export-Import Bank	-0.6	-0.7	-0.7	-0.7	-0.8	-3.5
Rural electrification and telephone revolving fund	-0.7	-0.8	-0.8	-0.9	-1.0	-4.1
Agriculture Credit Insurance Fund	-1.2	-1.3	-1.2	-1.3	-1.4	-6.4
Commodity Credit Corporation	0.0	0.0	-0.1	-0.1	-0.1	-0.2
Rural Housing Insurance Fund	-2.3	-2.4	-2.5	-2.6	-2.7	-12.3
Small Business Administration	-0.2	-0.4	-0.4	-0.4	-0.5	-1.9
Community development grant guarantee	0.0	0.0	0.0	0.0	0.0	0.0
Rural Development Insurance Fund	-0.1	-0.1	-0.1	-0.1	-0.1	-0.5
Low-rent public housing	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>-0.1</u>
Direct Loan Change	-4.8	-5.3	-5.6	-6.0	-6.5	-28.2

(Continued)

TABLE 10. MAJOR CHANGES IN BASELINE OUTLAYS FOR CREDIT PROGRAMS RESULTING FROM THE ADMINISTRATION'S BUDGET
(By fiscal year, in billions of dollars)

Major Program	1986	1987	1988	1989	1990	Cumulative Five-Year Changes
Foreign Military Sales Credits	0.0	0.1	0.3	0.2	0.2	0.8
Export-Import Bank	-0.3	-1.2	-1.7	-1.9	-2.0	-7.1
Rural Electrification and Telephone Revolving Fund	0.0	-0.5	-1.2	-1.6	-2.0	-5.2
Agriculture Credit Insurance Fund	-4.4	-4.4	-4.0	-3.9	-3.8	-20.5
Commodity Credit Corporation	0.2	0.0	-1.7	-1.7	-1.4	-4.6
Rural Housing Insurance Fund	-2.0	-3.1	-3.6	-4.0	-4.4	-17.2
Small Business Administration	-1.2	-1.5	-1.7	-1.9	-0.7	-7.0
Community Development Grant Guarantee	0.0	0.0	-0.1	-0.2	-0.2	-0.5
Rural Development Insurance Fund	0.0	-0.1	-0.2	-0.4	-0.5	-2.2
Low-rent public housing	-0.7	-1.7	-2.0	-2.0	-2.1	-8.6
Federal Housing Administration	-0.3	-0.4	-0.4	-0.5	-0.5	-2.2
Guaranteed Student loans	-0.5	-0.5	-1.0	-1.3	-1.8	-5.2
VA Loan Guaranty Revolving Fund	<u>-0.5</u>	<u>-0.5</u>	<u>-0.4</u>	<u>-0.2</u>	<u>0.0</u>	<u>-1.6</u>
Outlay Changes for Loan Programs	-9.7	-13.7	-17.8	-19.4	-19.2	-79.8

SOURCE: Congressional Budget Office.

Table 11. (Continued)

Major Program	1986	1987	1988	1989	1990	Cumulative Five-Year Changes
Administration Proposals						
Guaranteed Loans						
AID housing guarantees	0.0	0.0	0.0	0.0	0.0	-0.2
Export-Import Bank	0.1	0.0	0.0	0.0	0.0	0.1
Commodity Credit Corporation	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4
Federal Housing Administration	0.1	0.1	0.1	0.1	0.1	0.6
Small Business Administration	-0.6	-0.6	-0.6	-0.6	-0.7	-3.0
Rural Development Insurance Fund	0.0	0.0	0.0	0.0	0.0	-0.1
Guaranteed Student Loans	-0.8	-1.8	-1.9	-1.9	-2.0	-8.4
VA Loan Guaranty Revolving Fund	<u>-1.6</u>	<u>-1.7</u>	<u>-1.8</u>	<u>-2.1</u>	<u>-2.2</u>	<u>-9.4</u>
Guaranteed Loan Change	-2.9	-4.0	-4.3	-4.6	-4.8	-20.6

SOURCE: Congressional Budget Office.

CHAPTER III

THE CREDIT BUDGET BY MAJOR

BUDGET FUNCTION

This chapter provides a description of the credit activities of the government by major budget function. It describes each active credit program in terms of the CBO baseline assumptions and the Administration's request. It also describes program characteristics such as interest rates, target populations, and program financing, plus any Administration-proposed changes in the programs. Three types of tables are used to illustrate the credit activity:

- o A baseline summary table, giving CBO baseline estimates for 1985-1990, by account;
- o A table giving loan characteristics of both government loans and comparable private loans, by major program; and
- o A table showing the activity levels, subsidy costs, and outlays for the major credit program proposals in the President's 1986 request.

Data on credit programs in this chapter are CBO's baseline credit budget projections and reestimates of the President's 1986 request. Data on the President's credit budget have been taken from the Appendix to the Budget of the United States Government, Fiscal Year 1986 - specifically, the series of schedules titled "Status of Direct Loans" and "Status of Loan Guarantees" that follow the "Program and Financing" schedule for each budget account containing credit activity and from the "Special Analysis on Federal Credit." Subsidy estimates are from the OMB Special Analysis, except where noted.

Table 12 summarizes the 1985-1990 proposed credit activities by function. Direct loan programs are concentrated in four functions: agriculture, international affairs, commerce and housing, and energy. The bulk of guaranteed lending is in support of housing through the commerce and housing, veterans' affairs, and income security functions.

TABLE 12. CBO CREDIT BUDGET BASELINE BY FUNCTION
(By fiscal year, in billions of dollars)

Function	CBO Baseline Estimates					
	1985	1986	1987	1988	1989	1990
Direct Loan Obligations						
050 National Defense	--	--	--	--	--	--
150 International Affairs	10.1	11.7	12.3	12.7	13.1	13.7
250 General Science, Space, and Technology	--	--	--	--	--	--
270 Energy	2.7	2.7	2.7	2.8	2.9	3.0
300 Natural Resources and Environment	0.1	0.1	0.1	0.1	0.1	0.1
350 Agriculture	13.8	14.4	13.6	12.9	13.1	13.1
370 Commerce and Housing Credit	6.5	6.8	7.1	7.7	7.7	8.0
400 Transportation	0.3	0.2	0.1	0.1	0.1	0.1
450 Community and Regional Development	1.7	1.5	2.0	2.3	2.3	2.3
500 Education, Training, Employment and Social Services	1.2	1.1	1.1	1.1	1.2	1.2
550 Health	<u>a/</u>	<u>a/</u>	<u>a/</u>	<u>a/</u>	<u>a/</u>	<u>a/</u>
600 Income Security	14.3	1.8	2.3	1.8	1.5	1.5
700 Veterans' Benefits and Services	1.3	1.3	1.2	1.1	0.9	0.8
750 Administration of Justice	--	--	--	--	--	--
800 General Government	--	--	--	--	--	--
850 General Purpose Fiscal Assistance	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total	51.9	41.6	42.5	42.6	42.9	43.8

(Continued)

a. Less than \$50 million.

Table 12. (Continued)

Function	CBO Baseline Estimates					
	1985	1986	1987	1988	1989	1990
Loan Guarantee Commitments						
050 National Defense	--	--	--	--	--	--
150 International Affairs	10.3	10.8	11.2	11.7	12.2	12.7
250 General Science, Space, and Technology	--	--	--	--	--	--
270 Energy	0.1	4.1	--	--	--	--
300 Natural Resources and Environment	--	--	--	--	--	--
350 Agriculture	5.7	5.7	5.8	5.8	5.8	5.9
370 Commerce and Housing Credit	26.4	27.7	29.3	31.1	33.0	35.0
400 Transportation	0.3	0.3	0.3	0.3	0.3	0.3
450 Community and Regional Development	0.2	0.2	0.2	0.2	0.2	0.2
500 Education, Training, Employment and Social Services	8.8	9.0	9.4	9.6	10.0	10.4
550 Health	0.2	0.3	0.3	0.3	0.3	0.3
600 Income Security	--	--	--	--	--	--
700 Veterans' Benefits and Services	16.8	17.6	18.8	20.9	23.9	24.9
750 Administration of Justice	--	--	--	--	--	--
800 General Government	--	--	--	--	--	--
850 General Purpose Fiscal Assistance	--	--	--	--	--	--
Total	68.8	75.7	75.2	79.9	85.7	89.7

SOURCE: Congressional Budget Office.

FUNCTION 050: NATIONAL DEFENSE

The only active credit program in the defense function is a program of loan guarantees administered by the Department of Defense to assist private businesses in fulfilling defense production contracts. Current loan disbursements are for prior obligations only and are made through the Federal Financing Bank (FFB) with an accompanying guarantee by the Department of Defense. Neither the CBO baseline nor the Administration project any new commitments in this function.

FUNCTION 150: INTERNATIONAL AFFAIRS

Credit assistance in the international affairs function includes loans to foreign countries for economic development, the purchase of military equipment, and the purchase of U.S. surplus commodities. The Export-Import Bank and Foreign Military Sales programs are among the largest of all credit programs. Table 13 summarizes the new direct loan obligations and new loan guarantee commitments in this function.

The CBO baseline projects a total of \$11.7 billion in direct loan obligations in 1986, increasing to \$13.6 billion in 1990. New primary loan guarantee commitments are estimated to total \$10.7 billion to \$12.7 billion over the same period. The Administration is requesting \$8.1 billion in new direct loans, and \$12.1 billion in new loan guarantees, in 1986.

Export-Import Bank

Under current policies, the Export-Import Bank (Eximbank) provides direct loans to foreign countries and firms to purchase U.S. exports at an estimated subsidy of 16.1 percent of loan principal. Guaranteed loan subsidies are estimated to be 4.1 percent. The Administration is proposing to eliminate direct lending by Eximbank, which otherwise would be expected to obligate \$4.0 billion in 1986. As a partial offset, loan guarantees are to be increased by \$1.6 billion in 1986. These changes are reflected in Table 15. Eximbank would also be authorized to spend up to \$100 million (plus \$36 million for application fees) per year to "buy down" the interest rates on \$1.8 billion of federally guaranteed private loans to foreign importers of U.S. goods. Table 15 also shows the projected \$7.1 billion reduction in Eximbank outlays for direct loans. The subsidy cost savings from implementing the President's proposal is \$2.3 billion over five years. This total consists of a \$3.5 billion reduction in subsidy savings for direct loans offset by \$1.2 billion in increased subsidies for the \$3.1 billion in increased guarantees over the period.

Foreign Military Sales

The FMS program provides a mix of forgiven loans--effectively grants--and concessional and Treasury rate loans to foreign countries and organizations to purchase U.S. defense articles and services. In 1985 the mix of forgiven

TABLE 13 INTERNATIONAL AFFAIRS CREDIT PROGRAMS BASELINE
(By fiscal year, in millions of dollars)

Program	1984 Actual	CBO Baseline Estimates					
		1985	1986	1987	1988	1989	1990
Direct Loan Obligations							
Functional Development Assistance	406	371	387	404	421	439	457
Economic Support Fund	288	341	356	371	387	403	420
P.L. 480	806	867	907	948	988	1,030	1,072
Foreign Military Sales	5,716	4,940	5,162	5,384	5,611	5,848	6,095
Guarantee Reserve Fund (Defaults)	613	683	793	824	793	793	785
Export-Import Bank	1,467	2,302	4,046	4,337	4,411	4,576	4,769
Other	<u>50</u>	<u>63</u>	<u>67</u>	<u>60</u>	<u>63</u>	<u>62</u>	<u>64</u>
Total	9,346	10,067	11,718	12,329	12,674	13,151	13,662
Loan Guarantee Commitments							
Overseas Private Investment Corp.	92	150	157	164	170	178	185
AID Housing	150	160	167	174	182	189	197
Export-Import Bank	<u>7,149</u>	<u>10,000</u>	<u>10,450</u>	<u>10,900</u>	<u>11,360</u>	<u>11,840</u>	<u>12,340</u>
Total	7,391	10,310	10,774	11,238	11,712	12,207	12,722
Financing Transactions ^{a/}							
Guarantees of Direct Loans Made by the FFB	--	--	--	--	--	--	--
Foreign Military Sales	4,401	0	0	0	0	0	0

SOURCE: Congressional Budget Office.

- a. Agency loan asset sales are guaranteed by the agencies. These financing transactions are recorded as direct loans by the FFB to the agency and as guarantees of loan assets by the agency. Both transactions are for financing purposes and are not included in the direct and guaranteed loans to the public to avoid double counting.

and less deeply subsidized loans resulted in an average subsidy of 64 percent of loan volume. The Administration's budget proposes both to increase the volume of FMS loans over the baseline assumptions and to increase the proportion of forgiven loans. Direct loan volume would exceed the baseline by \$1.4 billion over the four-year period 1986-1990, and subsidies would increase by \$2.9 billion. Outlays would increase by \$800 million.

Agency for International Development's Housing Loan Guarantee Program

The housing guarantee program of the Agency for International Development (AID) extends guarantees to assist developing countries in providing housing for lower-income groups. Under current policy all guarantees are coguaranteed by the receiving countries. The loans bear interest of approximately 11 percent for 30 years. OMB estimates that completely private financing would cost 14.7 percent interest for 20-year loans. Given these rates, the baseline subsidy is 19.6 percent of principal. The Administration is proposing to eliminate the program after 1986. Its proposal would reduce the loan volume by \$864 million over the next five years, but save \$170 million in subsidies for that period. The resource savings are therefore much smaller than the reduced loan volume might suggest.

Functional Development Assistance and the Economic Support Fund

The Agency for International Development extends discretionary loans for a variety of purposes through these two programs. Loans are discretionary in that the program's administrator may fund a project either as a grant or as a concessional loan. The proportion of loans to grants has decreased in the last 10 years from approximately 7:3 to less than 1:10 in 1984.

Loan terms are identical in both programs. Interest is set at 2 percent for the first 10 years, then at 3 percent for up to 30 additional years. The average maturity for loans of the Economic Support Fund has tended to be less than this limit, making the effective subsidy percentage shown in Table 14 slightly less than that for Functional Development Assistance loans (61.6 percent vs. 63.4 percent).

TABLE 14. INTERNATIONAL AFFAIRS CREDIT PROGRAMS: LOAN CHARACTERISTICS FOR FISCAL YEAR 1984

Program	Interest Rate (Percent)		Term (Years)		Subsidy as a Percent of Principal
	Average Government Loan	Estimated Private Loan	Average Government Loan	Estimated Private Loan	
Direct Loans					
Functional Development Assistance	2.8	15.3	34	10	63.4
Economic Support Fund	3.0	14.6	15	15	61.6
Foreign Military Sales-Forgiven	0.0	14.7	(NA)	1	100.0
Concessional	5.0	13.7	7	10	48.3
By FFB	12.5	14.6	20	20	15.8
Export-Import Bank	11.2	15.2	9	9	16.1
Guaranteed Loans					
AID Housing	11.1	14.7	30	20	19.6
Overseas Private Investment Corp.	14.0	14.7	10	7	4.3
Export-Import Bank	12.0	14.9	3	3	4.2

SOURCE: Compiled by Congressional Budget Office using data from Special Analysis F, Tables 11 and 12.

TABLE 15. INTERNATIONAL AFFAIRS CREDIT PROGRAMS: IMPACT OF THE
PRESIDENT'S REQUEST RELATIVE TO THE CBO BASELINE
(By fiscal year, in millions of dollars)

President's Proposals	1986	1987	1988	1989	1990	Cumulative Five-Year Changes
Direct Loan Obligations						
Export-Import Bank	-4,046	-4,089	-4,371	-4,576	-4,769	-21,851
Foreign Military Sales	493	395	290	171	35	1,384
Other	<u>-18</u>	<u>-233</u>	<u>-42</u>	<u>-20</u>	<u>-64</u>	<u>-377</u>
Total	-3,571	-3,927	-4,123	-4,425	-4,798	-20,844
Primary Gaurantee Commitments						
Overseas Private Investment Corp. (OPIC)	-7	-14	-20	-28	-35	-104
AID Housing	-122	-174	-182	-189	-197	-864
Export-Import Bank	<u>1,550</u>	<u>1,100</u>	<u>640</u>	<u>160</u>	<u>-340</u>	<u>3,110</u>
Total	1,421	912	438	-57	-572	2,142
Subsidy Costs						
Direct Loans						
Export-Import Bank	-651	-658	-704	-737	-768	-3,518
Foreign Military Sales	<u>691</u>	<u>644</u>	<u>594</u>	<u>535</u>	<u>466</u>	<u>2,929</u>
Total	40	-14	-110	-202	-302	-588
Guaranteed Loans						
OPIC	-0.3	-0.6	-0.9	-1.2	-1.5	-4.5
AID Housing	-24	-34	-36	-37	-39	-170
Export-Import Bank	<u>64</u>	<u>45</u>	<u>26</u>	<u>7</u>	<u>-14</u>	<u>128</u>
Total	39.7	10.4	-10.9	-31.2	-54.5	-46.5
Outlays						
Export-Import Bank	-300	-1,200	-1,700	-1,900	-2,000	-7,100
Foreign Military Sales	0.0	100	300	200	200	800

SOURCE: Congressional Budget Office.

FUNCTION 270: ENERGY

This function includes credit programs for rural electrification and telephones funded through the Rural Electrification Administration (REA), power projects funded through the Bonneville Power Administration, and the Tennessee Valley Authority (TVA). Table 16 summarizes the new direct loan obligations and new loan guarantee commitments in this function.

Rural Electrification Administration

The Rural Electrification Administration of the Department of Agriculture conducts two capital investment programs: rural electrification, to provide electric service to farms and other rural establishments; and the rural telephone program, to furnish and improve telephone service in rural areas. Both programs are operated through the Rural Electrification and Telephone Revolving Fund, which the Congress placed off-budget to exempt its activities from outlay or expenditure ceilings.

REA direct loans are made at 5 percent and guaranteed loans at the Treasury rate plus $\frac{1}{8}$ of 1 percent for 35 years under current policy. Comparable private loans are estimated by OMB to bear 14.6 percent interest for 15 years in the case of direct loans and 3 years for guaranteed loans (see Table 17). The Administration proposes to phase down government lending to rural electric and telephone cooperatives to zero by 1990. The Administration also proposes to increase the interest rate on REA direct loans to the Treasury rate plus 1 and $\frac{1}{8}$ percent. REA direct loan obligations and direct loans originated from the Federal Financing Bank are projected to be reduced by \$11 billion over the five-year period (see Table 18). Subsidies would decline because of both the lower loan volume and the proposed increase in rates for the REA direct loans. Baseline subsidies would be reduced by \$4.1 billion. Outlays are estimated to be cut by \$5.2 billion.

Tennessee Valley Authority

The Tennessee Valley Authority is a government-owned corporation created to oversee the unified development of a river basin area that covers parts of seven states. The Seven States Energy Corporation is a TVA subsidiary that finances TVA's nuclear fuel acquisition. The corporation borrows from the